



Pension Consulting Alliance, Inc.

Los Angeles Portland New York

June 16, 2008

Members of the Policy Subcommittee of the Investment Committee
California Public Employees' Retirement System
Lincoln Plaza East
400 Q Street, Room E4800
Sacramento, CA 95814

Re: Statement of Investment Policy for the Infrastructure Program

Dear Members of the CalPERS Investment Policy Subcommittee:

Pension Consulting Alliance, Inc. ("PCA") has reviewed the proposed Statement of Investment Policy for the Infrastructure Program ("Policy") to be presented as a second reading at the Policy Subcommittee on June 16, 2008. The Policy reflects the parameters outlined for infrastructure investments within the proposed Inflation-Linked Asset Class ("ILAC").

PCA believes that the Policy provides a solid framework which enables CalPERS to explore investment activity within the infrastructure investment space. As infrastructure has emerged as a new and complex asset class within the capital markets, it is important that CalPERS approach the investment sector with diligence, caution and flexibility.

In the first version of Policy dated April 21, 2008, the Policy outlined the performance objectives, target returns, benchmarks, permitted investment opportunities and the different risks associated with infrastructure. As these components remain, the second version of the policy highlights in more detail the strategy to be used in implementing the Policy. Specifically, the revised version addresses portfolio allocation, leverage, risk, regional allocation and concentration. The revised Policy incorporates specific investment parameters which were previously lacking from previous version.

The outlined program strategy strengthens the Policy and provides additional operational and investment guidance. However, in PCA's opinion, the stated leverage levels within the Policy are aggressive, and in the initial stages of the infrastructure program, should be more conservative. While we recognize that in the early investment stages the leverage levels may be high due to lower diversification within the portfolio, we believe that the stated leverage levels should be lower so as to not transform low risk investments into higher risk transactions.

The Policy reflects changes within the section VI. D.- Domestic Responsible Contractor Program, Preference and Domestic Public Sector Jobs. These changes pertaining to enforcement enhance the existing language regarding responsible contracting and domestic public sector jobs.

As PCA has worked with the CalPERS board and staff over the last fifteen months to research, analyze and develop the Infrastructure Program, we believe the Policy provides a solid



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foundation for investing in infrastructure. While the Policy will continue to be refined as staff increases its expertise and gains more exposure to the asset class and investment managers, we believe that the Policy assists CalPERS to develop solid investment program for infrastructure. We will be available for questions at the June 16th meeting.

Sincerely,

Allan Emkin
Managing Director

Judy Chambers
Managing Director

Cc: Anne Stausboll, CalPERS
Farouki Majeed, CalPERS
Mike Moy, PCA